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SUBJECT: APRIL 2006 INFLATION UPDATE AND PREDICTIONS

SUMMARY

¶1. The Consumer Price Index (CPI) rose 1.0 percent in April, bringing the 12-month inflation rate to 11.7 percent. Average nominal salaries increased 0.9 percent in March and the purchasing power of salaried workers in March was 5.3 percent higher than in March ¶2005. The poverty rate fell to 33.8 percent in the second half of 2005, down from 38.5 percent in the first half, while the destitution level declined to 12.2 percent from 13.6 percent. The Central Bank's survey of market expectations projects CPI inflation to be 0.8 percent in May and 12.3 percent for all of ¶2006. The GOA's anti-inflation policy identifies relative price adjustments and profiteering as the main sources of inflation and attacks them with price and cost controls. Research from many reputable sources indicates, however, that Argentine inflation is mainly the result of monetary and fiscal factors, indicating that the GOA should focus on macroeconomic remedies that have historically been more effective in fighting inflation. End Summary.

THE CONSUMER PRICE INDEX

¶2. The official Consumer Price Index (CPI) was 1.0 percent higher in April 2006 than in March 2006, above the 0.8 percent predicted by the Central Bank's (BCRA) consensus forecast. April inflation brought 12-month inflation to 11.7 percent. Prices of Goods increased 1.0 percent and Prices of Services increased 0.9 percent in April. Prices of seasonal goods increased by 2.5 percent, regulated prices increased 0.2 percent, and the rest, which constitutes "core

inflation," increased 0.9 percent in April. Core inflation was 12.7 percent between April 2005 and April 2006. The official CPI measures inflation only in the Greater Buenos Aires urban area.

¶3. Clothing, Entertainment, and Housing and Basic Housing Services were the three CPI components with the highest monthly price rises in April, increasing 5.5 percent, 1.5 percent and 1.0 percent, respectively. Education was the CPI component that increased the most between April 2005 and April 2006, posting a 19 percent increase. Education was followed by Clothing, which rose 14.8 percent, and Food and Beverages, which increased 13.8 percent.

TABLE I
CONSUMER PRICE INDEX (1999 = 100)

YEAR	CPI PCT CHG PREV YR	CORE INFLATION PCT CH PREV YR
2001	-1.5	n.a.
2002	41.0	n.a.
2003	3.7	n.a.
2004	6.1	6.4
2005	12.3	14.2

	CPI PCT CHG PREV MO	CORE INFLATION PCT CH PREV MO
2005		
JAN	1.5	1.1
FEB	1.0	1.3
MAR	1.5	2.2
APR	0.5	0.8
MAY	0.6	0.6
JUN	0.9	1.1
JUL	1.0	1.0
AUG	0.4	0.9
SEP	1.2	0.9
OCT	0.8	0.7
NOV	1.2	1.4
DEC	1.1	1.4
2006		
JAN	1.3	0.7
FEB	0.4	0.7
MAR	1.2	1.7
APR	1.0	0.9

Source: National Bureau of Statistics and Census (INDEC).

POVERTY AND DESTITUTION LEVELS

¶4. INDEC publishes a monthly estimate of the value of a "total consumption basket" and a "food consumption basket." These baskets are based on estimates of the minimum nutritional requirements and other consumption habits of people of different ages. These estimates determine the official poverty line and the official destitution line, respectively. For a family of four in April, the poverty line was ARP 857.60 (USD 280) and the destitution line was ARP 397.03 (USD 130). A family of four is defined as a man and a woman in their thirties, an eight-year-old girl and a five-year-old boy.

¶5. The peso value of the poverty line decreased 0.3 percent in April, and rose 11 percent in the April 2005 - April 2006 period. The peso value of the destitution line decreased 0.7 percent in April, and rose 12.5 percent in the April 2005-April 2006 period.

¶6. The percentage of people living below the poverty line was 33.8 percent in the 28 most important urban

areas of Argentina in the second half of 2005. The percentage of the poor was 38.5 in the first half of 2005, and 40.2 percent in the second half of 2004. The percentage of people living below the destitution line was 12.2 percent in the 28 most important urban areas in the second half of 2005. The percentage of the destitute was 13.8 percent in the first half of 2005, and 15.0 percent in the second half of 2004.

AVERAGE NOMINAL SALARIES

¶17. INDEC estimated that average nominal salaries increased 0.85 percent in March 2006 over February ¶2006. Inflation was 1.2 percent during that period. The average nominal salary increase in March was due to increases of 1.2 and 0.7 in formal and informal private sector salaries, respectively, while public sector salaries were unchanged. Public sector salaries include salaries of both federal and provincial employees.

¶18. Average nominal salaries grew by 17.0 percent between March 2005 and March 2006. This growth was due to increases of 21.0, 17.6 and 7.1 percent in formal private sector, informal private sector and public sector salaries, respectively. Inflation in the same period was 11.1 percent. Therefore, the purchasing power of the average salaried worker in March 2006 was on average 5.3 percent higher than it was in March 2005. Both formal and informal private sector salaries had significant gains in purchasing power of 8.9 and 5.8 percent, respectively. However, public sector salaries experienced a 3.6 percent decline.

WHOLESALE PRICE INDEXES

¶19. The Wholesale Price Index (IPIM) increased 1.5 percent during April 2006, bringing the total IPIM increase since April 2005 to 11.0 percent. This index measures the price changes of national products (including Primary Products and Manufactured Goods and Electric Power) and imports sold in the domestic market. The IPIM also includes taxes. The 1.5 percent increase in April was due to a 4.1 percent increase in Primary Product prices and a 0.7 percent increase in Manufactured Goods. The increase in Primary Products was largely the result of a 9.0 percent increase in Oil and Gas prices, and a 6.6 percent increase in Fish prices. Electric Power prices did not change. Import prices increased 0.6 percent.

¶10. The Wholesale Basic Prices Index (IPIB) has the same coverage as the IPIM, except that it excludes taxes. The IPIB increased 1.6 percent in April, bringing the total IPIB increase since April 2005 to 11.5 percent. The 1.6 percent increase in April was due to a 3.9 percent increase in Primary Product prices and a 0.7 percent increase in Manufactured Goods. Electric Power prices did not change. Import prices increased 0.6 percent.

¶11. The prices for the sectors measured in the IPIM and IPIB are weighted using the corresponding value of product net of exports. INDEC has devised another index, the Basic Prices to Producers Index (IPP), whose weights are calculated considering sales in the internal market as much as sales to the external market and excluding imports and taxes. The IPP increased 1.7 percent in April 2006, bringing the total IPP increase since April 2005 to 11.8 percent. Primary Products increased 4.1 percent and Manufactured Goods increased 0.7 percent. Electric

Power prices did not change.

CONSTRUCTION COSTS

¶12. The INDEC index measuring private housing construction costs in Greater Buenos Aires increased 1.3 percent in April. These costs were 15.7 percent higher than in April 2005. The April increase is the result of a 1.6 percent increase in materials, a 1.0 percent rise in labor costs, and a 0.3 percent increase in other construction costs. Wages of salaried employees working for the sector increased 0.8 percent and payments to the self-employed grew 1.6 percent. Professional fees are not included among the labor costs considered by INDEC in the construction sector.

INFLATION PREDICTIONS FOR 2006

¶13. The GOA's national budget includes a 9.1 percent inflation forecast for 2006. The BCRA monetary program for 2006 announced on December 29, 2005, established an inflation target of between 8-11 percent for 2006. According to the BCRA's last survey of market expectations published on April, CPI inflation is expected to be 0.8 percent in May, and 12.3 percent in 2006, the same rate as for 2005.

COMMENT

¶14. The GOA's decision to focus its anti-inflation policy on widespread price restraint agreements, price controls, cost controls and export bans, reflect the GOA's view that inflation in Argentina is due to microeconomic problems. Both the GOA and the Central Bank (BCRA) argue that the major causes of inflation is relative price adjustments from the 2002-2003 devaluation of the peso, and profiteering, primarily by retailers, abusing their market power.

¶15. Research from many reputable sources indicates, however, that inflation in the Argentine economy is mainly the result of monetary and fiscal factors. For example, Deloitte Argentina Chief of Economic Analysis Luis Secco demonstrated recently that price increases have been generalized since early 2005, with price increases in 75 percent of all CPI components. If this were the result of relative price adjustments, as the BCRA and GOA have argued, we should be seeing some prices increasing sporadically while many others remain stable. Secco also showed that the ratio between consumer prices and wholesale manufacturing prices is well below pre-devaluation levels, so price increases also are not the result of profiteering by retailers. This research indicates that the GOA should focus on macroeconomic remedies that have historically been more effective in fighting inflation than price and cost controls.

¶16. To see more Buenos Aires reporting, visit our classified website at:
<http://www.state.sgov.gov/p/wha/buenosaires>

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